

The Greater Baltimore Committee Review of the Baltimore City Public School System

Implementation of the 2003 Recommendations
Regarding Fiscal Management Practices
and the Budget Process

June 2006



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Review of Recommendations

Fiscal Management Review Report of the Baltimore City Public School System

Recommendation 1 – Start the budget process earlier, ideally in October of the year before the fiscal year begins on July 1.

Status – The budget development calendar used for the FY 2007 Operating Budget attempts to schedule the budgeting process so that it blends well with updating the Master Plan, projects more precise enrollment, allows limited public feedback and meets the deadlines set by the Mayor, the City Council and the Maryland State Department of Education.

The CEO and CFO are strongly encouraged to set specific dates well in advance for each budget task. Scheduling by the month can lead to delays and bottlenecks in the development process. It is noteworthy that the draft development calendar for FY 2007 indicates budget managers will receive the budget development guidelines in November. Unfortunately, the budget development calendar, presumably the final version, changes the date to December 20, 2006. The guidelines were dated December 20 for distribution. Such a time lag could result in a substantial loss of preparation time in the budget development cycle, particularly with the winter break. Typically, a delay in one aspect of budget development creates tighter deadlines for other functions in the process, such as analysis and review, or creates other delays in the schedule. Establishing specific dates well in advance makes it easier to hold budget managers accountable for meeting deadlines.

Action Needed – Although progress has been made, the recommendation to start the budget process earlier has not been satisfactorily accomplished. Budget managers should receive budget parameters and guidelines in late October at the same time the enrollment projections are released. This would enable budget managers to submit requests prior to the winter holiday. As the experience from FY 2007 budget development indicated, the scheduled date was adjusted to late December. There are a substantial number of tasks scheduled for January, particularly within the CFO's function, that could require more time particularly if guidelines are distributed late, budget submissions are late and the CEO and/or senior staff recommend changes.

In order to ensure an earlier start for budget development, the final enrollment projections released in February should be analyzed against the preliminary enrollment projections produced during the previous October. If a consistent trend can be found over the past five years using the two sets of projections and other demographic data, the enrollment projection process can be adjusted to make it less likely that material changes in the projection will occur after the proposed budget has been presented to the senior staff.

The CEO and CFO have provided for limited public comment. Based on the calendar there is the opportunity to schedule time for expanded public comment between the February budget presentation to the Board and the scheduled Board action in April. The schedule could provide for four to eight weeks to permit public comment. This may involve holding multiple

hearings during the time the final proposal is being formulated for the Board, with final public comments taken at the time the Board considers the proposed operating budget.

Recommendation 2 – Institute sanctions against cost managers who miss deadlines or who do not submit budget requests on time.

Status - BCPSS has several substantive sanctions against employees who violate procurement, travel and temporary non-instructional hiring procedures. However, there is no evidence of similar procedural sanctions regarding the budget process.

Action Needed – Implement substantive and measurable sanctions against cost managers who miss deadlines or do not submit budget requests on time. Violations of budget deadlines should be noted and reflected in cost center managers’ performance appraisal.

Recommendation 3 – Schedule pre-budget meetings with the CEO, executive officers and key staff to outline priorities for the upcoming budget requests

Status - There are several tasks identified on the budget development calendar that suggest this function is occurring. The Master Planning prioritization, grant funding issues, and staff model review all appear to be occurring prior to the distribution of the budget packet.

There are also budget review sessions that occur among senior staff that are presumably useful in formulating the proposed budget. Area Officers schedule budget review meetings to help formulate the budget.

Recommendation 4 – Provide regular budget preparation training for principals and other cost center managers.

Status – Budget training has improved significantly. Instructional sessions are held during the school year and at summer institutes for cost center managers and principals. The budget instruction book includes a step-by-step guide for creating a budget and entering it into the computer system. It also contains a detailed budget calendar. Part of the budget training for principals includes guidance for allocating budget dollars during certain parts of the year for maximum effectiveness. This would include costs for fuel, and textbook and supply dollars.

In addition, financial analysts are assigned to key leadership positions, to departments and to schools/principals. Senior staff meets weekly to review financial data, staffing and enrollment. In the grants area, grant budgets are monitored regularly and grants managers are called in for additional training and help when discrepancies are found in any grant budget. The Oracle information system is set up to electronically capture budget information as it is entered. Principals received their budgets for the upcoming year in late May or early June as compared to August in the previous year.

The system has increased and improved budget preparation training and is working to make the budget schedule start earlier each year. Accounting and budget now work together as part of a financial analysis group. Senior financial analysts are assigned to key leadership, departments and principals. Monthly management letters are sent to departments and cost centers outlining their financial standing. Copies of the letter go to the CFO who adjusts department budgets quarterly.

Instructional sessions are held both during the school year and at summer institutes to teach managers how to use the budget tools. There are in-depth budget instructions for individual schools, for general fund non-school based staff, and for operating expenses.

Budget instructions sent to all central and area officers clearly define the expectation that officers will meet with their directors to compile budgets for each area and that the officers will approve the plans before they are submitted to the CFO's office. Officers are expected to work with their Senior Financial Analyst throughout the process.

The roll-up chart of accounts has also helped with adherence to the budget process. Area officers can see the budget for each school separately and can also see the monthly financial statements and the budgets in the aggregate. Supervisors can hold cost center managers accountable in this way also.

Action Needed: The CEO has identified the need to have a budget-training book that is more user friendly. Spending is still occasionally out of line with what is allocated. Spending variances show up in the monthly variance report, but ideally would not occur at all. The CEO believes that with increased training, spending could be brought into alignment with allocations.

The system needs to put sanctions in place for failure to comply with budget deadlines.

Recommendation 5 – Set up better lines of communication among the CEO, the COO and the CFO to ensure that budget processes are in place.

Status – At the time the original GBC report was written (July 2003) the former CFO was also functioning as the COO and the procurement officer. In addition the former CEO was in the process of seeking new employment. When the current CEO took office, she began to build a senior management team and hired both a new CFO and a COO. The configuration of their positions and the organizational structure allow for constant communication.

The accounting and budgeting groups are now consolidated under the CFO. The IT department also reports to the CFO. An evaluation of the management structure of the divisions under the COO was done by School Stat and some changes were implemented. The Framework Team is looking at the management structure in terms of how to align it to meet customer service needs and school needs. This has not yet been completed.

Recommendation 6 – Consolidate budget and human resources under the CFO

Status - According to the most recent organizational chart, Human Resources remains a direct report to the CEO but the CFO has regularly scheduled interaction with Human Resources and significant oversight. The new Human Resources Management System (HRMS) was put in place in 2004 and aligned with the organization's structure. School staffing is now driven by enrollment, rather than by requests for additional positions.

HRMS plans for positions using a baseline of existing personnel. Human Resources calculates positions required according to a staffing model that uses the ratio of teachers to students and student teachers to students to project how many new staff members will be required for projected enrollment. Actual salary amounts are added in for the positions the

system needs for the next year. Temporary workers are no longer kept on the payroll indefinitely.

Other changes in Human Resources that have been made include:

- New positions can not be created without the CFOs approval
- All budget approvals must be completed before vacant positions are filled
- The CFO meets with Human Resources twice a week to review the HRMS
- Positions created by grants cannot be filled until the full approval process has been completed.

Action Needed – Complete direct line responsibility to the CFO rather than the CEO.

Recommendation 7 – Prepare a fiscal note for each program.

Status – The CFO’s office requires justification for each new budget request submitted. Before any cost estimates associated with programs go to the Board for approval, a financial analyst assesses the cost and prepares a fiscal note. Costs associated with all new academic programs are reviewed by the CEO before submission to the Board. The CEO considers only programs that support the master plan, have been subjected to a thorough fiscal analysis and have a fiscal note attached.

Recommendation 8 – Have demand for budget accountability come directly from the CEO

Status - There has been a concerted effort to work on the culture of accountability. A key tool is Circular 27 issued by the CEO. Circular 27 delineates procedures that must be adhered to without exception and covers issues such as temporary workers, approval for purchases, submission of invoices, business travel and carryover funds for grants. If an employee violates Circular 27, he or she receives a Failure to Comply Notice that is put in his or her personnel file and the offense is investigated to see if disciplinary action is necessary. Reprimand letters for failure to comply have decreased over the past two years from 150 a month to approximately 30 a month.

Recommendation 9 – Work with the School Board to estimate true costs of programs.

Status – Because the Board did not have a standing Finance Committee until recently, there was not a single entity charged with analyzing program costs. Even if such an entity existed, the Board does not necessarily have the financial background necessary to understand the true costs of programs.

Additional Action - The board would benefit from having a board staff person who could help with financial analyses and understanding the true short and long-term costs of programs.

Recommendation 10 – Engage the School Board in regular budget monitoring through the Finance Committee

Status – The School Board has established a Finance Committee to more effectively monitor the school system’s budget.

Recommendation 11 – Return to budget-driven programming.

Status – The School Board has not returned to budget-driven programming but has adopted a policy of considering all programs in terms of the dollars available to the system.

Recommendation 12 – Institute a permanent process of program review.

Status – The system works from a Master Plan and all budget requests for program or personnel are matched against priorities in the Master Plan. Requests must support a part of the Master Plan. This procedure has also been applied to grant applications.

Action Needed – Programs need to be fully assessed and routinely reviewed to determine if they are effective and warrant the costs associated with them.

Recommendation 13 – Begin budget process earlier to help create a culture of promptness and adherence to the budget schedule.

Status – See response to Recommendation 1.

Recommendation 14 - Make all dates for submission of the proposed budget numbers firm

Status – See response to Recommendation 1.

Recommendation 15 – Solicit public input earlier in the process so the budget reflects public priorities

Status - There are opportunities for the public to provide a comment during the Master Plan prioritization and after the proposed budget is accepted for review by the Board. There are also limited general public comment opportunities at Board meetings in addition to the ability to communicate directly with the Board and CEO or through the Parent Community Advisory Board (PCAB).

The CEO and CFO have expanded opportunity for public comment, but given the issues facing the school system, earlier and more frequent outreach is recommended with the public. BCPSS built additional public comment time into the FY'07 budget development calendar for October and November but did not hold those meetings.

Action Needed - Based on the budget calendar there is the ability to schedule time for public comment between the February budget presentation to the Board and the scheduled Board action in April. This schedule could potentially provide four to eight weeks to permit public comment. This may involve holding multiple hearings during the phase when the final proposal is being formulated for the Board. The system's goal is to bring the budget to the Board in March, which would necessitate getting public input very early in the process.

Recommendation 16 – Provide adequate resources and training for those who compile and submit budget numbers

Status - In an effort to better align the business and academic goals, BCPSS has assigned financial analysts to key academic leadership, departments, and school areas/principals.

The CEO and CFO and their staff are to be complemented on the training resources provided to budget managers. The instructions are very thorough along with the explanation and understanding of the process. There is also a list of the appropriate finance and human resources people to contact based on areas of responsibility. The budget entry system documentation appears to be intuitive.

The budget book is helpful, particularly the CEO's letter of transmittal and the summary. The document does need to incorporate positions and enrollment with the financials. There is a need to help identify the funds more in terms of the teachers and staff provided by program. Students served through full-time equivalency (FTE) data should be included in the budget document. By "putting a face" on the dollars in terms of other relevant data, such as FTEs, the system helps frame the public dialogue and policy discussion.

The budget document should also include the current year budget and previous year actual funding by program. The CFO should access resources available through the Association of School Business Officials and the Government Finance Officers Association for creating effective budget documents.

Action Needed – The system CEO is seeking help to review best practices in budget books for school systems in order to make the budget book more easily understandable. The CEO specifically cited the Montgomery County and the Baltimore County budget books as good examples to emulate.

Recommendation 17 – Make adherence to the budget process a priority

Status – See response to Recommendation 4.

Recommendation 18 – Pursue requests for outside help for long-term budgeting and other budgeting issues

Status – BCPSS has instituted measures designed to give the financial department accurate information from which to work when making budget projections. The human resources position tracking system helps make accurate projections of positions needed. The chart of accounts creates a financial hierarchy for budgets and expenditures within each cost center that roll up to each department's total. Monthly variance reports are created and distributed to all department heads. Current staff listings with actual salaries allow cost centers to budget using actual salaries instead of average salaries. The system also formed the financial analysis group that works exclusively with department managers and reports directly to the CFO. Information received throughout the year and the analysis done by this group enables better forecasting for subsequent fiscal years.

In addition, the system reports regularly to a Financial Oversight Committee set up by the Office of the Mayor. The SchoolStat team performs in depth analysis of different budget areas with the goal of creating greater accountability, which in turn augments the ability to make more accurate budget projections.

Recommendation 19 – Hire and retain a new CFO

Status – The school system hired a new CFO in 2003. Under this CFO’s leadership, the system was able to liquidate a large portion of its debt. The CFO is also credited with having made sweeping and striking improvements in financial accountability, fiscal planning and management efficiencies. Her leadership is widely acknowledged as having dramatically and positively changed the financial posture of the school system. The CFO hired in 2003 left her position in November of 2005, leaving the CFO position vacant once again.

Action Needed – The system will not be able to achieve and maintain financial stability with constant turnover in the leadership position of the CFO. In addition to the CFO, the system during the last calendar year saw turnover or vacancies in senior staff that included the head of human resources, chief of staff, legal counsel, COO and the head of special education. There was still no budget director appointed at the time of the writing of this report. Although some of these position changes reflected the need for new and innovative leadership, the system needs stability at the senior level.

Recommendation 20 – Evaluate bi-monthly reports to determine what level of reporting is needed to control spending

Status – The system now produces monthly variance reports.

Recommendation 21 – Assess the work environment.

Status – The original recommendation to assess the work environment was to form the basis for a strategy to improve the environment so that “turnover in key financial positions does not occur with the frequency that it currently does.”

Action Needed - There is still high turnover in key financial positions (see #19 above) indicating a need for the system to continue to assess the work environment.

Recommendation 22 – Track positions accurately

Status – Using the new Human Resources Management System (HRMS), the general accounting and financial analysis group is able to create a staff list that has actual salaries for FY’06. This allows budget centers to look at actual staff salary amounts, add in increments for the coming fiscal year if that position needs to be replaced and have an accurate salary amount to request. The system also has a new planning system that uses existing personnel as a baseline. They then add in the actual salary amounts for the position needed for the coming fiscal year. Positions are estimated according to a staffing model that uses the ratio of teachers to students and student teachers to student to project how many new staff members will be needed for the projected enrollment.

Recommendation 23 – Require budget approval before vacant positions can be filled.

Status – Every request to fill a vacant position must be justified by the requesting cost center and approved by the CFO. No one can be hired unless there is an approved budgeted position for him or her. Temporary employees are notified about their termination at both 60 days and 30

days from date of termination. Termination dates are firm. Human Resources identify and notify grant employees about their termination date.

Recommendation 24 – Review cost projects process and timing to see if projections are sufficiently current for next year’s budget.

Status – See response to Recommendation 1.

Recommendation 25 – Hold managers accountable for meeting procurement deadlines.

Status – All purchase orders are sent directly to procurement and entered into the Oracle financial information system. The CFO signs all purchase orders over \$5,000 and the budget department verifies that all expenditures are appropriate. The system has made it clear with all budget managers that invoices must be submitted within thirty days or the request will not be honored. The CFO works through Circular 27, the memo that outlines disciplinary actions that will be taken against managers who do not submit invoices within thirty days.

Recommendation 26 – Pay bills on time.

Status – Expense accruals and encumbrances are now being completed on an annual basis. In general, the system pays its bills in a timely manner.

Recommendation 27 – Review grants administration process and staff.

Status – The grants administration staff and process have changed dramatically since the original GBC report in 2003. The grants department used to be part of the finance department but was separated out in 2003. Until 2005, External Affairs handled foundations and corporate grants, but Grants Management has now taken over this function as well. The director prepares a detailed report for the CEO on all grant activities. Grants account for between one and two percent of the total discretionary budget for the school system. The budget for this department is about \$950,000 and the department generates between \$7 million and \$15 million annually in grant dollars. Most of the grants come from the Maryland State Department of Education. The department handled approximately 140 grants in 2005, 80 carryovers and 60 new. There were 36 grants approved during the time this study was conducted for FY '06. The department has put in a system of training, and constant checks and re-checks to make sure that grants are administered properly and that no grant monies are left on the table at the end of the fiscal year.

The Grants Management Department is made up of four teams:

- Acquisition team
- Budget team
- Grants Management Team
- Grants Accountants

There are 13 employees in this new department:

- One Director
- Four employees in Grants Management

- Three employees in Budgeting
- Five employees in Accounting
- Two employees in Grants Acquisition
- One office assistant

Recommendation 28 –Determine if grants management staff is properly trained in fiscal matters.

Status – See response following Recommendation 31.

Recommendation 29 – Review organizational structure to ensure grant budgeting and spending process are coordinated with all other operating expenditures.

Status – See response following Recommendation 31.

Recommendation 30 - Make sure grants are spent or reimbursement is sought in a timely manner before utilizing other funding sources.

Status – See response following Recommendation 31.

Recommendation 31 – Require that budget and grants management staff review federal and state funds for possible unrestricted offsets to the general fund.

Status - Following is a summary of how the department currently works.

1. **The Acquisition Team – has responsibility for seeking out funding opportunities, getting approval to pursue those opportunities, and writing the grant application.** Once a funding opportunity is identified, the acquisition group aligns the opportunity with the Master Plan and prepares a grant announcement. The announcement goes to the system officers. The senior officer under whose jurisdiction the grant would fall makes a decision about whether or not to pursue the opportunity and the appropriate program person to handle the grant proposal. Once the decision is made to submit the proposal, a budget person from the grants area is assigned to help the person writing the proposal complete the forms.

A team looks at the grant proposal and “backmaps” the process by looking at the due date and outlining what needs to be done to meet all the demands of the proposal on time. The goal of this process is to have a standard grant preparation process. Once the document is complete, the team shows how the grant will support a strategy in the Master Plan. The department director signs off on the grant, then the CFO, then the senior officer who initiated the approval process, and finally the CEO. After approval, the document is mailed or emailed to the grantor. The grant proposal is tracked through a scheduling system and filed until the date of notification. If the grant is denied, grants management initiates an inquiry with the grantor to get feedback about why the grant was denied.

If the grant is awarded, it is recorded and sent to the grants manager, the management team, and to the accounting staff. A person from grants accounting is assigned to the grant. The grant then goes to the Budget team.

2. **The Budget Team (3) – works with the grant manager to create a budget.** The grant manager explains how he/she intends to spend the grant money, and then the Budget Team loads the finances into the Oracle system and reviews this outcome with the grant manager. The grant manager has to review the budget and sign off on it.

If any changes are made to the budget during the course of the grant, they are made with the grants management group and are done on a form known as a “budget amendment form.” If a situation evolves where the grant manager cannot spend part of the money, then the grant manager must provide a narrative justifying why the money was not spent. If the grant is external, then all changes to the budget are sent to the CFO and CEO for approval. After approval the budget changes are re-loaded into the system to reflect the changes. There is a central filing location for all budget changes that come in for all grants. Every month, grant managers get a report from the Grants Management Department that shows spending, encumbrances, and any variances. The Budget Team tries to capture all spending including both personnel and project costs for each twelve-month period of a grant. The Budget Team would like to have the capacity to do more budget analysis on the front end of each grant.

3. **The Grant Management Team – learns the regulations and the laws governing grants so that the grant managers stay in compliance.** This team maintains a running tally of all grants so that they can flag grants that may need evaluations or data for mid-year or annual reporting. The team also works with the grant managers to help monitor expenditures and help with processes. The team helps review contracts so that they can explain them to the grant managers in layperson’s terms. This team hosts bi-monthly grant managers’ meetings to hear issues the grant managers want to discuss and have addressed. In this forum, the management team also advises grant managers about new procedures, processes or changes in the grant system. There is a training module for new grant managers so that training is consistent. Three employees work on this team. The director needs more.
4. **The Grant Accountants Team (3) – is responsible for monitoring expenditures and reporting to the funding agency and works to make sure that the grant money is properly spent.** The accountants team holds bi-monthly grant oversight meetings with the grant managers and with the officers. At each of the grants managers meetings, the accountants present a snapshot summary of the grants. They are responsible for reconciliation, for looking at budgets to make sure they are properly loaded and match the budget requirements of the grants. They handle the financial closeouts and the annual reports. When encumbrances are left at the end of a reporting cycle, the accounting team liquidates them.

Every month a memo goes to the officers listing the grants under their supervision that are being closed out. In this way the accounting team gives the officers advance notice in

case there are variances to be resolved. The accounting team does all approvals for expenditures and makes sure that the funding stream is correct. They match all account codes and make sure that expenditures are accurate.

Hiring Under the Grants

Grants managers are not allowed to fill any position created by a grant until all approvals for those positions are in place. There had been a tendency for the managers to fill positions and allow people to start work, but this was curtailed by the new CFO. If a position is filled improperly, the grant manager receives a letter of reprimand from the CFO. Positions are determined according to the specific needs of the grant. Once the senior staff person overseeing the grant has designated what strategies the grant will support in the Master Plan and the budget is loaded, Human Resources and Information Technology solicit from the grant managers the names and positions they intend to use during the year. The grant managers then fill out a position action request to create or fill a position. The accounting team checks the costs to make sure that there are funds available and accessible and then the position is released to be filled. It is the responsibility of the grant manager to make sure that employees on their grant are being paid from the grant.

Action Needed – Hire a supervisor for this department. Explore the possibility of hiring more personnel for the grant management team.

Recommendation 32 – Have the Board adopt a position of helping to enforce budget compliance

Status – The Board of School Commissioners now requires and reviews monthly variance reports from the system. These reports highlight for the Board where there are discrepancies in meeting budget goals and/or spending in a timely manner. In addition, cost center managers at every level have been asked to come before the Board and report on the status of their budgets. In May of 2005, the Board reinstated a committee structure including a Finance Committee. The goal of the Finance Committee is to drill down into the budget process to get a thorough understanding of it so that committee members and the full Board can help enforce budget compliance.

Action Needed – Keep the entire Board engaged in the budget process. The Finance Committee should monitor the budget process closely and make regular reports back to the full Board.

Recommendation 33 – Set up clear lines of communication between the Board and the legislature.

Status - In the past two years the Board has made a conscious effort to communicate with the City Council and with the State Legislature. The Board reports semi-annually to the City Council and the Council President has been active in school issues. On a more regular basis, the Board Chairperson meets with a designated City Council member. This is the agreed upon route of communication with the Council.

Members of the City Delegation of the State Legislature come to school forums and have visited both individual schools and school facilities. Board members talk regularly with City Delegation members and make an effort to keep the Delegation informed.

In addition, select Board members meet every Monday morning with the Mayor and his SchoolStat team. This meeting includes the CEO, the COO, the chief of staff, and the chairman of the Board of School Commissioners.

Recommendation 34 – Review the way in which committees function and report back to the Board.

Status – There were no Board committees until the middle of 2005 when the Board, under a new Chairperson, reinstated six standing committees. These committees are: finance and budget, special education, quality of instruction, facilities, parent and community involvement, and personnel evaluation and employment. There is also an ad hoc committee on policy review. Every two weeks the standing committees report to the full Board during executive session.

Action Needed – Previously, when the School Board had a committee structure, there was an issue with the committees not reporting to the full Board on a regular basis. With new committees in place, there is the opportunity to set up a structured communications system between the committees and the full Board.

Recommendation 35 – Allow the CEO to have input to the agenda for board meetings.

Status – The Board’s executive committee meets with the system’s CEO the week before the Board meeting to assess issues that should be included on the Board agenda. Information packets are distributed the Friday before the Board meeting.